

DOWAGIAC HOUSING COMMISSION
DOWAGIAC, MICHIGAN

FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
AND
REPORTS ON INTERNAL CONTROL AND
COMPLIANCE

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name DOWAGIAC HOUSING COMMISSION		County	
Fiscal Year End SEPTEMBER 30, 2005		Opinion Date JUNE 20, 2006		Date Audit Report Submitted to State JUNE 27, 2006			

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).


YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☐ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☐ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☐ ☐ The local unit has adopted a budget for all required funds.
5. ☐ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☐ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☐ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>		
Other (Describe)		<input checked="" type="checkbox"/>	Internal Control and Compliance Reports	
Certified Public Accountant (Firm Name) BARRY E. GAUDETTE, CPA, PC			Telephone Number (231) 946-8930	
Street Address 1107 E. EIGHTH STREET			City TRAVERSE CITY	State MI
			Zip 49686	
Authorizing CPA Signature 		Printed Name BARRY E. GAUDETTE		License Number 11050

DOWAGIAC HOUSING COMMISSION
TABLE OF CONTENTS
September 30, 2005

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)	3-6
FINANCIAL STATEMENTS	
Basic Financial Statements:	
Fund Financial Statements:	
Proprietary Fund:	
Statement of Net Assets	7-8
Statement of Activities	9
Statement of Cash Flows	10-11
Notes to Financial Statements	12-24
SUPPLEMENTAL INFORMATION	
Fund Financial Statements:	
Proprietary Fund:	
Combining Statement of Net Assets	25-26
Combining Statement of Activities	27
Combining Statement of Cash Flows	28-29
Schedule of Expenditures of Federal Awards and Notes to the Schedule of Federal Awards	30
Financial Data Schedule	31-34
REPORTS ON INTERNAL CONTROL AND COMPLIANCE	35-38
Schedule of Findings and Questioned Costs	39-42
Summary Schedule of Prior Audit Findings	43
Adjusting Journal Entries	44

INTRODUCTION

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

1107 East Eighth Street
Traverse City, Michigan 49686
(231) 946-8930
Fax (231) 946-1377

Independent Auditor's Report

Board of Commissioners
Dowagiac Housing Commission
Dowagiac, Michigan

I have audited the accompanying financial statements of the business-type activities of the Dowagiac Housing Commission, Michigan, a component unit of the City of Dowagiac, as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Housing Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Dowagiac Housing Commission, Michigan, as of September 30, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 7(D), the Housing Commission has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as amended and interpreted as of September 30, 2005.

Dowagiac Housing Commission
Independent Auditor's Report
Page Two

In accordance with *Government Auditing Standards*, I have also issued my report dated June 20, 2006, on my consideration of Dowagiac Housing Commission, Michigan's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of my audit.

The management's discussion and analysis comparison information on pages 3 through 6, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that comprise Dowagiac Housing Commission, Michigan's basic financial statements. The accompanying financial data schedule is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Housing Commission. The accompanying schedule of expenditures of federal awards, is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of Dowagiac Housing Commission, Michigan. The combining financial statements, schedule of expenditures of federal awards, and the financial data schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barry E. Vandell, CPA, PC

June 20, 2006

DOWAGIAC HOUSING COMMISSION
DOWAGIAC, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD & A)
September 30, 2005
=====

The Dowagiac Housing Commission, created in 1970, by the City of Dowagiac provides housing to meet the community's needs for affordable low-income housing. As management of the Housing Commission, we offer readers this narrative overview and analysis of the financial activities of the Housing Commission for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the Housing Commission's financial statements.

Financial Highlights

The financial statements for Dowagiac Housing Commission consists of four programs. The first is owned housing, consisting of 86 units of public housing, the second is the capital funding program, and the third is the housing choice voucher program consisting of 115 qualifying low-income residents for rental housing, and the Housing Commission also has an agreement with Tri City Village (a nonprofit organization in Watervliet) to collect HUD grant monies to operate 56 low-income units under the Section 8 New Construction Program under Contract C-8077.

Dowagiac Housing Commission had total revenues of \$1,257,170 that includes \$178,121 in rental payments and \$1,061,046 in federal assistance. Total revenues increased by \$14,146 from the prior year, in part, because of federal grant increases compared to the prior year. Total operating expenses were \$1,297,132, that includes \$172,831 in administrative expenses, \$92,403 in utilities, \$135,794 in ordinary maintenance and operation, \$697,772 in housing assistance payments, and \$161,540 in depreciation expense. The operating expenses decreased by \$66,100, in part, because of wages and fringe benefits decreasing from the prior year.

The assets of the Housing Commission exceeded its liabilities at the close of the most recent fiscal year by \$1,233,816. The Housing Commission's total net assets decreased by \$39,962 from the prior year.

Total assets of the Housing Commission were \$1,315,308; there was a net decrease of \$57,037 from the prior year as a result of applying accumulated depreciation \$161,540 and net additions of \$99,388.

Overview of the Financial Statements

The financial statements included in this annual report are those of a special-purpose government engaged only in a business-type activity. The following statements are included:

- * Statement of Net Assets - reports on the Housing Commission's current financial resources with capital and other assets and other liabilities.
- * Statement of Activities - reports the Housing Commission's operating and non-operating revenues, by major source along with operating and non-operating expenses and capital contributions.
- * Statement of Cash Flows - reports the Housing Commission's cash flows from operating, investing, capital, and non-capital activities.

Financial Analysis of the Housing Commission

The following combined condensed balance sheets show a summary of changes for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Current assets	\$ 246,858	\$ 241,743	\$ 5,115
Property and equipment	<u>1,068,450</u>	<u>1,130,602</u>	<u>(62,152)</u>
Total assets	<u>\$1,315,308</u>	<u>\$1,372,345</u>	<u>\$ (57,037)</u>
Current liabilities	\$ 63,073	\$ 95,539	\$ (32,466)
Noncurrent liabilities	<u>18,419</u>	<u>3,028</u>	<u>15,391</u>
Total liabilities	<u>81,492</u>	<u>98,567</u>	<u>(17,075)</u>
Net assets:			
Invested in capital assets	1,051,964	1,130,602	(78,638)
Unrestricted	<u>181,852</u>	<u>143,176</u>	<u>38,676</u>
Total net assets	<u>1,233,816</u>	<u>1,273,778</u>	<u>(39,962)</u>
Total liabilities and net assets	<u>\$1,315,308</u>	<u>\$1,372,345</u>	<u>\$ (57,037)</u>

The following table of summarizes the Statement of Activities of the Housing Commission for the years ended September 30, 2005 and 2004.

	<u>2005</u>	<u>2004</u>	<u>Net Change</u>
Operating revenues:			
Dwelling rent	\$ 178,121	\$ 177,162	\$ 959
Nondwelling rent	<u>7,702</u>	<u>19,303</u>	<u>(11,601)</u>
Total operating revenues	<u>185,823</u>	<u>196,465</u>	<u>(10,642)</u>
Operating expenses:			
Administration	172,831	211,930	(39,099)
Tenant services	8,463	8,573	(110)
Utilities	92,403	91,647	756
Ordinary maintenance and operation	135,794	155,702	(19,908)
General expenses	27,475	48,113	(20,638)
Interest expense	1,825		1,825
Casualty losses	(971)		(971)
Housing assistance payments	697,772	696,971	801
Depreciation	<u>161,540</u>	<u>150,296</u>	<u>11,244</u>
Total operating expenses	<u>1,297,132</u>	<u>1,363,232</u>	<u>(66,100)</u>
Non-operating revenue:			
Fraud recovery	15		15
Gain on sale of assets	1,200	70	1,130
Interest income	4,257	2,460	1,797
Operating grants	985,582	969,566	16,016
Capital grants	75,464	69,555	5,909
Other income	<u>4,829</u>	<u>4,908</u>	<u>(79)</u>
Total nonoperating revenue	<u>1,071,347</u>	<u>1,046,559</u>	<u>24,788</u>
Change in Net Assets	<u><u>\$ (39,962)</u></u>	<u><u>\$ (120,208)</u></u>	<u><u>\$ 80,246</u></u>

Commission's Position

The Dowagiac Housing Commission's overall financial position and results of operations for the 2004/2005 has deteriorated during the year. Our operating results has been significantly affected by the decrease in subsidy, which does not help with an increase in natural gas and electric utility prices, as well as employee, liability and worker's compensation insurance premiums.

During the FY 2004/2005 the Dowagiac Housing Commission

accomplished the following with Capital Fund Program funds: Installed a new maintenance shed at Parkside Townhouses; purchased refrigerators and ranges for Chestnut Towers; installed a new voice mail system in the office; installed a new computer system in the office and installed new rain guard gutters on Parkside Townhouses buildings. The following items are on the schedule for the 2005/2006 Capital Fund Program funds: Repair and/or replace damaged roofing at Parkside Townhouses and replace the kitchen cabinets, sinks, disposals, counter tops and faucets in twenty units at Chestnut Towers. With the new proposed limits and restrictions regarding the use of the Capital Fund Program fund our financing of planned facilities or services may be affected.

At this present time there no known facts, decisions or conditions that are expected to have a significant effect on our financial position or results of operations.

Questions and comments regarding this Management Discussion and Analysis may be directed to:

Christine Sherene, Executive Director
100 Chestnut Street, Dowagiac, MI 49047

FINANCIAL STATEMENTS

DOWAGIAC HOUSING COMMISSION

STATEMENT OF NET ASSETS

September 30, 2005

=====

ASSETS

Current Assets:

Cash	\$ 199,747
Accounts receivable-HUD	16,660
Accounts receivable-tenants	6,190
Allowance for doubtful accounts	(608)
Accrued interest receivable	28
Investments-unrestricted	16,937
Prepaid expenses	<u>7,904</u>

Total Current Assets	<u>246,858</u>
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Property and Equipment:

Land	62,513
Buildings	3,528,176
Equipment	305,476
Building improvements	<u>239,675</u>
	4,135,840
Less: accumulated depreciation	<u>(3,067,390)</u>

Net Property and Equipment	<u>1,068,450</u>
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Total Assets	<u>\$ 1,315,308</u>
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See notes to financial statements

DOWAGIAC HOUSING COMMISSION
STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

LIABILITIES and NET ASSETS

Current Liabilities:	
Accounts payable	\$ 34,016
Tenant security deposit liability	18,581
Accrued expenses	6,033
Deferred revenues	109
Current portion of long-term debt	<u>4,334</u>
Total Current Liabilities	<u>63,073</u>
Noncurrent Liabilities:	
Long-term debt, net of current	12,152
Accrued compensated absences	<u>6,267</u>
Total Noncurrent Liabilities	<u>18,419</u>
Total Liabilities	<u>81,492</u>
Net Assets:	
Invested in capital assets	1,051,964
Unrestricted net assets	<u>181,852</u>
Total Net Assets	<u>1,233,816</u>
Total Liabilities and Net Assets	<u>\$ 1,315,308</u>

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
STATEMENT OF ACTIVITIES
Year Ended September 30, 2005
=====

OPERATING REVENUES:

Dwelling rent	\$ 178,121
Non-dwelling rent	<u>7,702</u>
Total operating revenues	<u>185,823</u>

OPERATING EXPENSES:

Administration	172,831
Tenant services	8,463
Utilities	92,403
Ordinary maintenance and operation	135,794
General expenses	27,475
Interest expense	1,825
Casualty losses	(971)
Housing assistance payments	697,772
Depreciation	<u>161,540</u>
Total operating expenses	<u>1,297,132</u>

Operating income(loss) (1,111,309)

NONOPERATING REVENUES:

Investment interest income	4,257
Fraud recovery	15
Other income	4,829
Capital grants	75,464
Operating grants	985,582
Gain on sale of fixed assets	<u>1,200</u>

Total nonoperating revenues 1,071,347

Change in net assets (39,962)

Prior period adjustments, equity transfers
and correction of errors 341

Net assets, beginning 1,273,437

Net assets, ending \$ 1,233,816

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
STATEMENT OF CASH FLOWS
Year Ended September 30, 2005
=====

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from dwelling and nondwelling rents	\$ 183,484
Cash payments to other suppliers of goods and services	(752,818)
Cash payments to employees for services	(384,021)
Cash payments for in lieu of taxes	<u>(7,983)</u>
Net cash (used) by operating activities	<u>(961,338)</u>

**CASH FLOWS FROM NONCAPITAL
FINANCING ACTIVITIES:**

Tenant security deposits	474
Operating grants	965,522
Fraud recovery	15
Other revenue	<u>4,829</u>
Net cash provided by noncapital financing activities	<u>970,840</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING
ACTIVITIES:**

Proceeds from loans	16,486
Proceeds from sale of assets	1,200
Capital grants	75,464
Payments for capital acquisitions	<u>(99,388)</u>
Net cash (used) by capital and related financing activities	<u>(6,238)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Investments (increased)decreased	(442)
Receipts of interest and dividends	<u>4,247</u>
Net cash provided by investing activities	<u>3,805</u>

Net increase(decrease) in cash	7,069
Cash, beginning	<u>192,678</u>
Cash, ending	<u>\$ 199,747</u>

DOWAGIAC HOUSING COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
Year Ended September 30, 2005
=====

RECONCILIATION OF CASH AND CASH EQUIVALENTS
PER STATEMENT OF CASH FLOWS TO THE BALANCE
SHEET:

Cash	\$ 199,747
Restricted cash	<u> </u>
Cash and cash equivalents per balance sheet	<u>\$ 199,747</u>

SCHEDULE RECONCILING OPERATING INCOME
TO NET CASH FLOW FROM OPERATING
ACTIVITIES:

Operating income(loss)	\$(1,111,309)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:	
Depreciation	161,540
Bad debt allowance	489
Changes in assets and liabilities:	
(Increase) decrease in assets:	
Accounts receivable-tenants	(2,090)
Prepaid expenses	(1,589)
Increase (decrease) in liabilities:	
Accounts payable	(6,668)
Accrued wage/payroll taxes payable	(6,177)
Accrued compensated absences	4,628
Accounts payable-PILOT	87
Deferred revenues	<u>(249)</u>
Net cash (used) by operating activities	<u>\$ (961,338)</u>

See notes to financial statements

DOWAGIAC HOUSING COMMISSION
NOTES TO FINANCIAL STATEMENTS
September 30, 2005
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NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Dowagiac Housing Commission (the Housing Commission) have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Housing Commission's accounting policies are described below.

The Reporting Entity

The Dowagiac Housing Commission is a component unit of the City of Dowagiac, a Michigan home rule city. The Housing Commission is a Public Housing Agency created by the City of Dowagiac on September 2, 1970, consisting of a five member board appointed by the City Manager and charged with the responsibility to provide and service housing to meet the community's needs for affordable low-income housing. These financial statements include all of the resources and activities of the Dowagiac Housing Commission over which the Housing Commission exercises operational control or which have financial significance to the Housing Commission. The Housing Commission has no component units and is not responsible for any jointly governed organizations.

Grants and Other Intergovernmental Revenues

The Housing Commission has entered into contracts with the U.S. Department of Housing and Urban Development (HUD). Under Contract C-3072, the Housing Commission constructed, maintains and operates 86 units of subsidized housing in the City of Dowagiac, Michigan. The Housing Commission manages a Housing Choice Voucher program of subsidies for 115 qualifying low-income residents for rental housing. The Housing Commission receives an annual operating subsidy determined under a performance formula for units owned by the Housing Commission and an administrative fee based on the number of households it assists under its Housing Choice Voucher program.

The Housing Commission has an agreement with Tri City Village (a nonprofit organization in Watervliet) to collect HUD grant monies to operate 56 low-income units under the Section 8 New Construction Program under Contract C-8077.

Fund Financial Statements

The Housing Commission only has *business-type activities*, which rely to a significant extent on fees and charges for support. The fund financial statements include the Statement of Net Assets, Statement of Revenues, Expenses and Changes in Net Assets and the Statement of Cash Flows.

The Housing Commission is considered one single Enterprise Fund and does not have any governmental activities.

Fund Accounting

The accounts of the Housing Commission are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self balancing accounts that comprise its assets, liabilities, net assets, revenues, and expenses. The Housing Commission's fund structure includes only proprietary funds. Under generally accepted accounting principles, proprietary funds are grouped into two broad categories - enterprise and internal service funds. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered through user charges; or (b) where laws or regulations require that the activity's costs of providing services including capital costs (such as depreciation or debt service) be recovered with fees and charges rather than with taxes and similar revenues. All of the Housing Commission's funds are operated as enterprise type proprietary funds whereby costs of services are to be recovered through user charges or subsidies from other governmental units.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements, regardless of the measurement focus. The Housing Commission's financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

Under the economic resources measurement focus, all assets and all liabilities (whether current or noncurrent) are included in the net assets of the individual funds. Their reported net assets are segregated into invested capital assets and unrestricted net asset components. Operating statements present increases (revenues) and decreases (expenses) in net assets.

Under the accrual basis of accounting, all revenues are recorded when earned, regardless of when received, and all expenses are recorded when a liability is created, regardless of when paid.

In accordance with Governmental Accounting Standards Board Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, Dowagiac Housing Commission has elected to apply only those Financial Accounting Standards Board Statements issued prior to November 30, 1989 to its proprietary funds.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Housing Commission considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Insurance

The premiums on all major insurance policies are charged to prepaid insurance and amortized over the life of the policy.

Budgets and Budgetary Accounting

The Housing Commission is required under each of its HUD contracts to adopt an annual operating budget which must be approved by HUD. Budgetary data and comparison of actual and planned performance is reported directly to HUD based on specific program reporting requirements.

Receivables

All receivables are reported at their net value, reflecting where appropriate, by the estimated portion that is expected to be uncollectible. The Housing Commission estimates the uncollectible portion of tenant rents as a percentage of gross tenant rents using prior collection experience.

Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds. Receivables and payables arising from these transactions are classified as "due from other funds" and "due to other funds" on the statement of net assets.

Fixed Asset Capitalization

Fixed assets with a cost to acquire or construct of \$300 or more are capitalized and depreciated over their estimated useful lives. Depreciation is provided on a straight-line basis using the following estimate of useful lives:

Buildings	40 years
Equipment and furnishings	5 - 10 years
Building improvements	5 - 20 years

Long-Term Obligations

In the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable business-type activities, or proprietary fund type statement of net assets.

Net Assets

The Housing Commission classifies its net assets as follows:

- a. Invested in capital assets net of related debt represents all fixed assets acquired by the Housing Commission (both pre-FY 2001 and post-Fy 2001) reduced by accumulated depreciation and related capital projects debt issued to purchase those assets.
- b. Unrestricted net assets indicate that portion of net assets which is available for use in future periods.

Operating Revenues and Expenses

The Housing Commission includes in operating revenues resources that are derived or received from exchange transactions. Resources derived principally from non-exchange transactions are excluded from operating income. Operating expenses include the cost of providing services, excluding depreciation. Depreciation, amounts expended for capital additions and amounts expended for retirement-of-debt are excluded from operating expenses. Depreciation expense is charged to invested capital assets rather than unrestricted net assets.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires the use of management estimates. The Housing Commission uses estimates of useful lives of its fixed assets and other estimates in preparing its financial statements. Actual results may differ from the Housing Commission's estimates.

Vacation and Sick Leave

The Housing Commission allows permanent employees to accumulate the following compensated absences:

- * Vacation time is not cumulative and shall be taken during the calendar year following the one in which it was earned. If unused vacation time is not taken as directed, the unused vacation time will be forfeited and may not be carried over into the next succeeding year.

- * Sick pay is earned at a rate of one day per month and can accumulate without limit. Unused sick pay is paid out at 50 percent upon termination to a maximum of sixty (60) days with several restrictions.
- * Personal leave may be granted for personal reasons without pay.

The amount of accumulated benefits at September 30, 2005, was \$9,018, and is recorded as a liability in the applicable funds.

Post Employment Benefits

The provision for pension cost is recorded on an accrual basis, and the Commission's policy is to fund pension costs as they accrue.

Income Taxes

As a component unit of a Michigan home rule city, the Housing Commission is exempt from federal and state income taxes. The Housing Commission has no unrelated business income.

NOTE 2: DEPOSITS, INVESTMENTS AND CREDIT RISK

The Housing Commission maintains cash and investment accounts in the Low Rent Program, Housing Choice Voucher Program, and Section 8 New Construction Program funds. Landlord checks are processed through the Housing Choice Voucher account. All other receipts and disbursements are processed through the Low Rent and Section 8 New Construction Program accounts.

Deposits

At year-end, the carrying amount of the Housing Commission's deposits were \$199,447 and the bank balance was \$211,403 of which \$211,703 was covered by federal depository insurance. The Housing Commission also has \$300 in petty cash.

Investments

The Housing Commission had the following investments in a certificate of deposit as September 30, 2005:

Berrien Teachers Credit Union (CD #9113422, suffix 331) \$ 16,397

Interest Rate Risk - The Housing Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk - The Housing Commission's investment policy approves the following securities and deposit accounts: U.S. Treasury bills, U.S. Treasury certificates, notes and bonds, certificate of deposits, commercial business savings accounts, money market accounts, obligations which are lawful investments for fiduciary and trust funds under the jurisdiction of the United States Government, Series E savings bonds and Series H savings bonds.

The Housing Commission shall deposit excess monies in the general fund and all other operating fund accounts in time, savings, or share accounts with banks or other institutions, to the extent that all unsecured deposits or accounts are insured by: the Federal Deposit Insurance Corporation (FDIC), National Credit Union Share Insurance Fund (NCUSIF), or State Insurance plans which are approved by the United States Comptroller of the currency as an eligible depository of trust funds of National Banks, respectively.

All excess monies over the insured limits of the financial institution or banks, the Housing Commission shall obtain collateralization of excess funds at 100% of the principal value. Such collateralization shall be in the form of U.S. Treasury Notes or Bonds in the name of the Housing Commission held in trust by the financial institution or bank. The Housing Commission may choose collateralization in the following form and percentages:

- | | | |
|-------------------------------------|---|----------|
| 1. U.S. Treasury Notes | - | 100%; or |
| 2. U.S. Treasury Notes and/or Bonds | - | 75% and |
| 3. Mortgage Backed Securities | - | 25% |

In any such case the collateralization shall be no less than 100% of value of the funds in all accounts. The financial institution shall provide a statement of the collateralization at a minimum once every quarter to the Housing Commission.

The Housing Commission has no investment policy that would further limit its investment choices.

Concentration of Credit Risk - The Housing Commission places no limit on the amount the Housing Commission may invest in any one issuer. All of the Housing Commission's investments are reported in the Enterprise Fund.

A reconciliation of cash as shown on the statement of net assets is as follows:

Cash on hand	\$ 300
Carrying amount of deposits	199,447
Investments	<u>16,937</u>
Total	<u>\$ 216,684</u>

Cash and cash equivalents:	
Enterprise activities	\$ 228,641
Enterprise activities - deposits in transit	200
Enterprise activities - checks written in excess of deposits	<u>(12,157)</u>
Total	<u>\$ 216,684</u>

NOTE 3: RECEIVABLES AND PAYABLES

Tenant Accounts Receivable

Tenant accounts receivable are recorded at gross amount and reduced by the estimated amount uncollectible. At September 30, 2005, the receivables were \$6,190 with \$608 estimated as uncollectible. Bad debt expense was \$2,148.

Accounts Payable - HUD

Amounts due to HUD represents overfunding the Housing Commission has received. Balances at September 30, 2005 were as follows:

Capital Fund Program	\$ 2,857
Housing Choice Voucher Program	<u>13,803</u>
	<u>\$ 16,660</u>

Inter-fund Receivables, Payables, and Transfers

Interfund receivables and payables are recorded as "due from other programs" and "due to other programs".

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Low Rent Program	\$ 56,781	Capital Fund Program	\$ 2,857
		Housing Choice Voucher Program	48,291
		New Construction Program	<u>5,633</u>
	<u>\$ 56,781</u>		<u>\$ 56,781</u>

The capital fund program transferred \$11,303 to the Low Rent Program during the fiscal year ended September 30, 2005.

NOTE 4: CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005 was as follows:

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
Low Rent Program				
Land	\$ 62,513	\$	\$	\$ 62,513
Buildings	3,465,178	23,455		3,488,633
Furniture, equip. & machinery - dwellings	56,693	18,449	12,000	63,142
Furniture, equip. & machinery - administration	154,038	23,924	558	177,404
Building improvements	<u>202,610</u>	<u>29,352</u>		<u>231,962</u>
	3,941,032	<u>\$ 95,180</u>	<u>\$ 12,558</u>	4,023,654
Less accumulated depreciation	<u>(2,883,194)</u>	<u>\$ (155,176)</u>	<u>\$ 9,563</u>	<u>(3,028,807)</u>
Total	<u>\$1,057,838</u>			<u>\$ 994,847</u>
Capital Fund Program				
Buildings	\$ 27,903	\$ 9,656	\$	\$ 37,559
Furniture, equip. & machinery - dwellings	18,450	2,378		20,828
Furniture, equip. & mach.-admin.		13,811		13,811
Building improvements	<u>29,352</u>	<u>21,639</u>	<u>21,639</u>	<u>7,713</u>
	75,705	<u>\$ 25,845</u>	<u>\$ 21,639</u>	79,911
Less accumulated depreciation	<u>(2,996)</u>	<u>\$ (6,309)</u>	<u>\$ 2,997</u>	<u>(6,308)</u>
Total	<u>\$ 72,709</u>			<u>\$ 73,603</u>
Housing Choice Voucher Program				
Buildings	\$ 1,984	\$	\$	\$ 1,984
Furniture, equip. and machinery- administration	<u>24,202</u>			<u>24,202</u>
	26,186	<u>\$</u>	<u>\$</u>	26,186
Less accumulated depreciation	<u>(26,161)</u>	<u>\$ 25</u>		<u>(26,186)</u>
Total	<u>\$ 25</u>			<u>\$</u>

	<u>Balance</u> <u>09/30/04</u>	<u>Additions/Retirements/</u> <u>Transfers</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/05</u>
New Construction				
Section 8 Program				
Furniture, equip.				
and machinery-				
administration	\$ 6,089	\$	\$	\$ 6,089
	6,089	\$	\$	6,089
Less accumulated				
depreciation	(6,059)	\$ 30	\$	(6,089)
Total	\$ 30			\$
Combined Totals				\$1,068,450

NOTE 5: LONG-TERM DEBT

The Housing Commission borrowed \$19,377 from First Federal Leasing on December 10, 2004. As of September 30, 2005 the balance is \$16,486. The interest rate is 13.43%. The note is secured by a satellite system. There are to be 48 payments of \$524 beginning on January 10, 2005.

The debt payments(principal) for the fiscal years ended September 30, 2006 are (\$4,334); 2007 (\$4,953); 2008 (\$5,661); and 2009 (\$1,538). The debt payments(interest) for the fiscal years ended September 30, 2006 are (\$1,954); 2007 (\$1,335); 2008 (\$627); and 2009 (\$34).

Balance at October 1, 2004	\$ -0-
Loan proceeds	19,377
Principal payments	(2,891)
Balance at September 30, 2005	\$ 16,486
Current portion	\$ 4,334
Noncurrent portion	12,152
Total debt	\$ 16,486

NOTE 6: INVESTED IN CAPITAL ASSETS

Changes in invested in capital assets (formerly contributed capital) in the enterprise fund type for the year ended September 30, 2005, consist of the following:

	<u>Invested in Capital Assets</u>
Balance, beginning	\$ 1,130,602
Investment in fixed assets, net of depreciation paid for from operations net of depreciation, not included in contributed capital	<u>(78,638)</u>
Balance, ending	<u>\$ 1,051,964</u>

These reclassifications are investments in fixed assets, net of depreciation paid for from operations, not included in contributed capital.

NOTE 7: OTHER INFORMATION

A. Pension Plan

Each employee is covered under a defined benefit plan with the Michigan Municipal Employees Retirement System (MERS) that provides for annual employer contributions with complete vesting after 10 years of service and normal retirement age at 60 years of age. At December 31, 2002, the date of the last completed actuarial evaluation, the Housing Commission's actuarial accrued liabilities for retirement benefits was \$29,204. The valuation of assets to meet this obligation was \$65,226, therefore the overfunded amount is \$36,022. The Housing Commission computed employer contributions as a percentage of payroll of 6.66% for general employees and 12.74% (normal cost) for the Executive Director (of unfunded accrued liability and normal costs) of payroll to cover the employer's cost for current benefits. The minimum required contribution is 4.83% of general employees and 0.00% of the Executive Director wages and an estimated annual contribution of \$2,088. The Housing Commission made total employer retirement contributions of \$3,085.86 on covered wages during the year ended September 30, 2005. There are three (3) active members, one (1) vested former member, and no retirees and beneficiaries.

B. Current Vulnerability Due to Certain Concentrations

The Housing Commission operates in a heavily regulated environment. The operations of the Housing Commission are subject to the administrative directives, rules and regulations of federal, state and local regulatory agencies, including, but not limited to, HUD. Such administrative directives, rules and regulations are subject to change by an act of Congress or an administrative change mandated by HUD. Such changes may occur with little notice to inadequate funding to pay for the related cost, including the additional administrative burden to comply with a change.

C. Risk Management and Litigation

The Housing Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters for which it obtains coverage from commercial companies. The Housing Commission has had no settled claims resulting from these risks that exceed their commercial coverage in the current year or the three prior fiscal years.

D. Implementation of New Accounting Standard

As of and for the year ended September 30, 2005, the Housing Commission implemented GASB Statement Number 34 - *Basic Financial Statements -and Management's Discussion and Analysis- State and Local Governments*. The more significant changes required by the standard include a Management Discussion and Analysis; government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting; fund financial statements, consisting of a series of statements that focus on a government's major funds; and schedules to reconcile the fund financial statements to the government-wide financial statements.

E. Prior Period Adjustments, Equity Transfers and Correction of Errors

Low Rent Program

Transfer completed 2002 (50102) Capital Fund to
Low Rent

\$ 68,261

Public Housing Capital Fund Program

Transfer completed 2002 (50102) to Low Rent

\$ (68,261)

Housing Choice Voucher Program

HUD adjustments for FYE 09/30/04 per year end
settlement 52681

\$ 340

Section 8 New Construction Program

HUD adjustments for FYE 09/30/04 per year end
settlement 52681

\$ 1

NOTE 8: SEGMENT INFORMATION

The Housing Commission maintains one Enterprise Fund that includes three separate programs which provide housing assistance and grant programs. Segment information for the year ended September 30, 2005, was as follows:

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>	<u>New Construct. Program</u>
Condensed Statement of Net Assets				
Current assets	\$ 169,846	\$ 2,857	\$ 68,464	\$ 62,472
Property & equipment	<u>994,847</u>	<u>73,603</u>		
Total assets	<u>\$1,164,693</u>	<u>\$ 76,460</u>	<u>\$ 68,464</u>	<u>\$ 62,472</u>
Current liabilities	\$ 46,244	\$ 2,857	\$ 50,079	\$ 20,674
Noncurrent liabilities	<u>17,538</u>		<u>725</u>	<u>156</u>
Total noncurrent liabilities	<u>63,782</u>	<u>2,857</u>	<u>50,804</u>	<u>20,830</u>
Net assets:				
Invested in capital assets	978,361	73,603		
Unrestricted net assets	<u>122,550</u>		<u>17,660</u>	<u>41,642</u>
Total net assets	<u>1,100,911</u>	<u>73,603</u>	<u>17,660</u>	<u>41,642</u>
Total liabilities & net assets	<u>\$1,164,693</u>	<u>\$ 76,460</u>	<u>\$ 68,464</u>	<u>\$ 62,472</u>
Condensed Statement of Activities				
Dwelling and nondwelling rents	\$ 185,823	\$	\$	\$
Depreciation	(155,176)	(6,309)	(25)	(30)
Other operating expenses	<u>(344,455)</u>	<u>(34,270)</u>	<u>(475,490)</u>	<u>(281,377)</u>
Operating(loss)	<u>(313,808)</u>	<u>(40,579)</u>	<u>(475,515)</u>	<u>(281,407)</u>
Nonoperating revenues:				
Gain on sale of fixed assets	1,200			
Investment earnings	2,110		1,056	1,091
Fraud recovery			15	
Other income	4,829			
Operating grants	184,437	45,573	472,505	283,067
Capital grants		75,464		
Operating transfers	<u>11,303</u>	<u>(11,303)</u>		
Change in net assets	(109,929)	69,155	(1,939)	2,751

	<u>Low Rent Program</u>	<u>Capital Fund Program</u>	<u>Housing Choice Vouchers</u>	<u>New Construct. Program</u>
Prior period adjustments	68,261	(68,261)	340	1
Beginning net assets	<u>1,142,579</u>	<u>72,709</u>	<u>19,259</u>	<u>38,890</u>
Ending net assets	<u>\$1,100,911</u>	<u>\$ 73,603</u>	<u>\$ 17,660</u>	<u>\$ 41,642</u>
Condensed Statement of Cash Flows				
Net cash provided (used) by:				
Operating				
activities	\$ (168,646)	\$ (34,270)	\$ (477,190)	\$ (281,232)
Noncapital				
financing				
activities	159,601	34,270	466,482	310,487
Capital and related				
financing activities	(6,238)			
Investing				
activities	<u>1,658</u>		<u>1,056</u>	<u>1,091</u>
Net increase (decrease)	(13,625)		(9,652)	30,346
Beginning cash and cash equivalents	<u>96,239</u>		<u>64,313</u>	<u>32,126</u>
Ending cash and cash equivalents	<u>\$ 82,614</u>	<u>\$</u>	<u>\$ 54,661</u>	<u>\$ 62,472</u>

NOTE 9: SUBSEQUENT EVENTS

On May 4, 2006, the Executive Director, Christine Sherene, resigned.
The Housing Choice Voucher coordinator, Sue Vollmer, was appointed as the interim Executive Director on May 17, 2006.

SUPPLEMENTARY INFORMATION

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS
 September 30, 2005
 =====

C-3072	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

ASSETS

Current assets:

Cash	\$ 82,614	\$ 2,857
Accounts receivable-HUD		
Accounts receivable-tenants	6,190	
Allowance for doubtful accounts	(608)	
Accrued interest receivable	28	
Investments-unrestricted	16,937	
Prepaid expenses	7,904	
Due from other programs	<u>56,781</u>	

Total current assets	<u>169,846</u>	<u>2,857</u>
----------------------	----------------	--------------

Property and equipment:

Land	62,513	
Buildings	3,488,633	37,559
Equipment	240,546	34,639
Building improvements	<u>231,962</u>	<u>7,713</u>
	4,023,654	79,911
Less accumulated depreciation	<u>(3,028,807)</u>	<u>(6,308)</u>

Net property and equipment	<u>994,847</u>	<u>73,603</u>
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Total Assets	<u>\$ 1,164,693</u>	<u>\$ 76,460</u>
--------------	---------------------	------------------

Housing Choice Vouchers 14.871	Section 8 New Construction Program 14.182	Totals
\$ 54,661	\$ 62,472	\$ 199,747
13,803		16,660
		6,190
		(608)
		28
		16,937
		7,904
		<u>56,781</u>
<u>68,464</u>	<u>62,472</u>	<u>303,639</u>
1,984		62,513
24,202	6,089	3,528,176
		305,476
		<u>239,675</u>
<u>26,186</u>	<u>6,089</u>	<u>4,135,840</u>
(26,186)	(6,089)	(3,067,390)
		<u>1,068,450</u>
<u>\$ 68,464</u>	<u>\$ 62,472</u>	<u>\$ 1,372,089</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF NET ASSETS (CONTINUED)
September 30, 2005
=====

	C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS		
Current liabilities:		
Accounts payable	\$ 18,660	\$
Tenant security deposit liability	18,581	
Accrued expenses	4,560	
Deferred revenues	109	
Current portion of long-term debt	4,334	
Due to other programs	<u> </u>	<u>2,857</u>
Total current liabilities	<u>46,244</u>	<u>2,857</u>
Noncurrent liabilities:		
Long-term debt, net of current	12,152	
Accrued compensated absences	<u>5,386</u>	<u> </u>
Total noncurrent liabilities	<u>17,538</u>	<u> </u>
Total liabilities	<u>63,782</u>	<u>2,857</u>
Net Assets:		
Invested in capital assets	978,361	73,603
Unrestricted net assets	<u>122,550</u>	<u> </u>
Total net assets	<u>1,100,911</u>	<u>73,603</u>
Total Liabilities and Net Assets	<u><u>\$1,164,693</u></u>	<u><u>\$ 76,460</u></u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 574	\$ 14,782	\$ 34,016
1,214	259	18,581
		6,033
		109
		4,334
<u>48,291</u>	<u>5,633</u>	<u>56,781</u>
<u>50,079</u>	<u>20,674</u>	<u>119,854</u>
		12,152
<u>725</u>	<u>156</u>	<u>6,267</u>
<u>725</u>	<u>156</u>	<u>18,419</u>
<u>50,804</u>	<u>20,830</u>	<u>138,273</u>
		1,051,964
<u>17,660</u>	<u>41,642</u>	<u>181,852</u>
<u>17,660</u>	<u>41,642</u>	<u>1,233,816</u>
<u>\$ 68,464</u>	<u>\$ 62,472</u>	<u>\$ 1,372,089</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF ACTIVITIES
 Year Ended September 30, 2005
 =====

	C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
OPERATING REVENUES:		
Dwelling rent	\$ 178,121	\$
Nondwelling rent	<u>7,702</u>	<u> </u>
Total operating revenues	<u>185,823</u>	<u> </u>
OPERATING EXPENSES:		
Administration	80,731	33,909
Tenant services	8,463	
Utilities	92,403	
Ordinary maintenance and operation	135,433	361
General expenses	26,571	
Interest expense	1,825	
Casualty losses	(971)	
Housing assistance payments		
Depreciation	<u>155,176</u>	<u>6,309</u>
Total operating expenses	<u>499,631</u>	<u>40,579</u>
Operating income(loss)	<u>(313,808)</u>	<u>(40,579)</u>
NONOPERATING REVENUES:		
Operating transfers in (out)	11,303	(11,303)
Investment interest income	2,110	
Fraud recovery		
Other income	4,829	
Capital grants		75,464
Operating grants	184,437	45,573
Gain on sale of fixed assets	<u>1,200</u>	<u> </u>
Total nonoperating revenues	<u>203,879</u>	<u>109,734</u>
Change in net assets	(109,929)	69,155
Prior period adjustments, equity transfers and correction of errors	68,261	(68,261)
Net assets, beginning	<u>1,142,579</u>	<u>72,709</u>
Net assets, ending	<u>\$1,100,911</u>	<u>\$ 73,603</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$	\$	\$ 178,121
		7,702
		<u>185,823</u>
47,536	10,655	172,831
		8,463
		92,403
904		135,794
		27,475
		1,825
		(971)
427,050	270,722	697,772
25	30	<u>161,540</u>
<u>475,515</u>	<u>281,407</u>	<u>1,297,132</u>
(475,515)	(281,407)	(1,111,309)
1,056	1,091	4,257
15		15
		4,829
		75,464
472,505	283,067	985,582
		<u>1,200</u>
<u>473,576</u>	<u>284,158</u>	<u>1,071,347</u>
(1,939)	2,751	(39,962)
340	1	341
<u>19,259</u>	<u>38,890</u>	<u>1,273,437</u>
<u>\$ 17,660</u>	<u>\$ 41,642</u>	<u>\$ 1,233,816</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS
Year Ended September 30, 2005
=====

	C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from dwelling and nondwelling rents	\$ 183,484	\$
Cash payments to other suppliers of goods and services	(28,335)	(361)
Cash payments to employees for services	(315,812)	(33,909)
Cash payments for in lieu of taxes	<u>(7,983)</u>	<u></u>
Net cash (used) by operating activities	<u>(168,646)</u>	<u>(34,270)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Tenant security deposits	474	
Due from/to other funds	(41,442)	18,810
Operating transfers in (out)	11,303	(11,303)
Operating grants	184,437	26,763
Fraud recovery		
Other revenue	<u>4,829</u>	<u></u>
Net cash provided by noncapital financing activities	<u>159,601</u>	<u>34,270</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from loans	16,486	
Proceeds from sale of assets	1,200	
Capital grants		75,464
Payments for capital acquisitions	<u>(23,924)</u>	<u>(75,464)</u>
Net cash (used) by capital and related financing activities	<u>(6,238)</u>	<u></u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investments (increased)decreased	(442)	
Receipts of interest and dividends	<u>2,100</u>	<u></u>
Net cash provided by investing activities	<u>1,658</u>	<u></u>
Net increase(decrease) in cash	(13,625)	
Cash, beginning	<u>96,239</u>	<u></u>
Cash, ending	<u>\$ 82,614</u>	<u>\$</u>

Housing Choice Vouchers 14.871	Section 8 New Construction Program 14.182	Totals
\$	\$	\$ 183,484
(447,728)	(276,394)	(752,818)
(29,462)	(4,838)	(384,021)
		(7,983)
<u>(477,190)</u>	<u>(281,232)</u>	<u>(961,338)</u>
		474
(10,383)	33,015	
476,850	277,472	965,522
15		15
		<u>4,829</u>
<u>466,482</u>	<u>310,487</u>	<u>970,840</u>
		16,486
		1,200
		75,464
		<u>(99,388)</u>
		<u>(6,238)</u>
		(442)
<u>1,056</u>	<u>1,091</u>	<u>4,247</u>
<u>1,056</u>	<u>1,091</u>	<u>3,805</u>
(9,652)	30,346	7,069
<u>64,313</u>	<u>32,126</u>	<u>192,678</u>
<u>\$ 54,661</u>	<u>\$ 62,472</u>	<u>\$ 199,747</u>

DOWAGIAC HOUSING COMMISSION
COMBINING STATEMENT OF CASH FLOWS (CONTINUED)
 Year Ended September 30, 2005
 =====

C-3072	Capital
Low Rent	Fund
Program	Program
<u>14.850</u>	<u>14.872</u>

**RECONCILIATION OF CASH AND CASH
 EQUIVALENTS PER STATEMENT OF CASH
 FLOWS TO THE BALANCE SHEET:**

Cash	\$	82,614	\$
Restricted cash		<u> </u>	<u> </u>
Cash and cash equivalents per balance sheet	\$	<u>82,614</u>	\$ <u> </u>

**SCHEDULE RECONCILING OPERATING INCOME
 TO NET CASH FLOW FROM OPERATING
 ACTIVITIES:**

Operating income(loss)	\$ (313,808)	\$ (40,579)
Adjustments to reconcile operating (loss) to net cash(used in) operating activities:				
Depreciation		155,176		6,309
Bad debt allowance		489		
Changes in assets and liabilities:				
(Increase) decrease in assets:				
Accounts receivable-tenants	(2,090)		
Prepaid expenses	(1,589)		
Increase (decrease) in liabilities:				
Accounts payable	(6,029)		
Accrued wage/payroll taxes payable	(3,935)		
Accrued compensated absences		3,302		
Accounts payable-PILOT		87		
Deferred revenues	(<u>249</u>		<u> </u>
Net cash (used) by operating activities	\$ (<u>168,646</u>	\$ (<u>34,270</u>)

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 54,661	\$ 62,472	\$ 199,747
<u>\$ 54,661</u>	<u>\$ 62,472</u>	<u>\$ 199,747</u>
\$ (475,515)	\$ (281,407)	\$ (1,111,309)
25	30	161,540 489
		(2,090)
		(1,589)
(524)	(115)	(6,668)
(2,243)	1	(6,177)
1,067	259	4,628
		87
		<u>(249)</u>
<u>\$ (477,190)</u>	<u>\$ (281,232)</u>	<u>\$ (961,338)</u>

DOWAGIAC HOUSING COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND NOTES TO THE SCHEDULE OF FEDERAL AWARDS
Year Ended September 30, 2005
=====

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Fiscal Year	<u>Federal Grantor</u>	<u>CFDA No.</u>	<u>Expenditures</u>
	<u>U.S. Department of HUD</u>		
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Low Rent Public Housing	14.850	\$ 184,437
	<u>Public and Indian Housing Major - Direct Program</u>		
2005	Capital Fund Program	14.872	121,037
	<u>Low Income Public Housing Major - Direct Program</u>		
2005	Housing Choice Vouchers	14.871	472,505
	<u>Low Income Public Housing Nonmajor - Direct Program</u>		
2005	New Construction Section 8 Program	14.182	<u>283,067</u>
	Total		<u>\$1,061,046</u>

NOTES TO THE SCHEDULE OF FEDERAL AWARDS

NOTE 1: Significant Accounting Policies

The schedule of federal awards has been prepared on the accrual basis of accounting.

CFDA = Catalog of Federal Domestic Assistance

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE
Year Ended September 30, 2005
=====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	ASSETS		
	Current Assets:		
	Cash:		
111	Cash-unrestricted	\$ 63,965	\$
114	Cash-tenant security deposits	<u>18,649</u>	<u> </u>
100	Total cash	<u>82,614</u>	<u> </u>
	Receivables:		
122	A/R-HUD other projects		2,857
126	A/R-tenants-dwelling rents	6,190	
126.1	Allowance for doubtful accounts - dwelling rents	(608)	
129	Accrued interest receivable	<u>28</u>	<u> </u>
120	Total receivables, net of allowance for doubtful accounts	<u>5,610</u>	<u>2,857</u>
	Current Investments:		
131	Investments-unrestricted	<u>16,937</u>	<u> </u>
	Other Current Assets:		
142	Prepaid expenses and other assets	7,904	
144	Interprogram due from	<u>56,781</u>	<u> </u>
	Total other current assets	<u>64,685</u>	<u> </u>
150	Total current assets	<u>169,846</u>	<u>2,857</u>
	Noncurrent Assets:		
	Fixed Assets:		
161	Land	62,513	
162	Buildings	3,488,633	37,559
163	Furn, equip & mach-dwellings	63,142	20,828
164	Furn, equip & mach-admin.	177,404	13,811
165	Building improvements	231,962	7,713
166	Accumulated depreciation	<u>(3,028,807)</u>	<u>(6,308)</u>
160	Total fixed assets, net of accumulated depreciation	<u>994,847</u>	<u>73,603</u>
180	Total noncurrent assets	<u>994,847</u>	<u>73,603</u>
190	Total Assets	<u>\$ 1,164,693</u>	<u>\$ 76,460</u>

Housing Choice Vouchers 14.871	Section 8 New Construction Program 14.182	Totals
\$ 54,661	\$ 62,472	\$ 181,098
		18,649
<u>54,661</u>	<u>62,472</u>	<u>199,747</u>
13,803		16,660
		6,190
		(608)
		28
<u>13,803</u>		<u>22,270</u>
		<u>16,937</u>
		7,904
		<u>56,781</u>
		<u>64,685</u>
<u>68,464</u>	<u>62,472</u>	<u>303,639</u>
1,984		62,513
		3,528,176
		83,970
24,202	6,089	221,506
		239,675
(26,186)	(6,089)	(3,067,390)
		<u>1,068,450</u>
		<u>1,068,450</u>
<u>\$ 68,464</u>	<u>\$ 62,472</u>	<u>\$ 1,372,089</u>

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
LIABILITIES and NET ASSETS			
	Liabilities:		
	Current Liabilities:		
312	Accounts payable<=90 days	\$ 10,590	\$
321	Accrued wage/payroll taxes payable	2,595	
322	Accrued compensated absences	1,965	
331	Accounts payable-HUD PHA programs		
333	Accounts payable-other government	8,070	
341	Tenant security deposits	18,581	
342	Deferred revenues	109	
343	Current portion of long-term debt-capital projects/mortgage revenue bonds	4,334	
347	Interprogram due to	<u> </u>	<u>2,857</u>
310	Total current liabilities	<u>46,244</u>	<u>2,857</u>
	Noncurrent Liabilities:		
351	Long-term debt, net of current	12,152	
354	Accrued compensated absences	<u>5,386</u>	
350	Total noncurrent liabilities	<u>17,538</u>	
300	Total liabilities	<u>63,782</u>	<u>2,857</u>
	Net Assets:		
508.1	Invested in capital assets	<u>978,361</u>	<u>73,603</u>
508	Total invested in capital assets	978,361	73,603
512.1	Unrestricted net assets	<u>122,550</u>	
513	Total Net Assets	<u>1,100,911</u>	<u>73,603</u>
600	Total Liabilities and Net Assets	<u>\$ 1,164,693</u>	<u>\$ 76,460</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$ 574	\$ 158	\$ 11,322
566	121	3,282
648	138	2,751
	14,624	14,624
		8,070
		18,581
		109
		4,334
<u>48,291</u>	<u>5,633</u>	<u>56,781</u>
<u>50,079</u>	<u>20,674</u>	<u>119,854</u>
		12,152
<u>725</u>	<u>156</u>	<u>6,267</u>
<u>725</u>	<u>156</u>	<u>18,419</u>
<u>50,804</u>	<u>20,830</u>	<u>138,273</u>
		<u>1,051,964</u>
		1,051,964
<u>17,660</u>	<u>41,642</u>	<u>181,852</u>
<u>17,660</u>	<u>41,642</u>	<u>1,233,816</u>
<u>\$ 68,464</u>	<u>\$ 62,472</u>	<u>\$ 1,372,089</u>

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Revenue:		
703	Net tenant rental revenue	\$ 178,121	\$
704	Tenant revenue-other	<u>7,702</u>	
705	Total tenant revenue	185,823	
706	HUD PHA grants	184,437	45,573
706.1	Capital grants		75,464
711	Investment income-unrestricted	2,110	
714	Fraud recovery		
715	Other revenue	4,829	
716	Gain/loss on sale of fixed assets	<u>1,200</u>	
700	Total revenue	<u>378,399</u>	<u>121,037</u>
	Expenses:		
	Administrative:		
911	Administrative salaries	27,942	31,499
912	Auditing fees	2,800	
914	Compensated absences	3,301	
915	Employee benefit contributions-adm.	13,827	2,410
916	Other operating-administrative	32,861	
	Tenant Services:		
921	Tenant services-salaries	2,400	
924	Tenant services-other	6,063	
	Utilities:		
931	Water	31,352	
932	Electricity	57,203	
933	Gas	3,848	
	Ordinary maintenance and operation:		
941	Ordinary maint & oper-labor	68,920	
942	Ordinary maint & oper-mat'ls & other	22,255	
943	Ordinary maint & oper-contract costs	25,652	361
945	Employee benefit contributions	18,606	
	General expenses:		
961	Insurance premiums	16,322	
962	Other general expenses	31	
963	Payments in lieu of taxes	8,070	
964	Bad debt-tenant rents	2,148	
967	Interest expense	<u>1,825</u>	
969	Total operating expenses	<u>345,426</u>	<u>34,270</u>
970	Excess operating revenue over operating expenses	<u>32,973</u>	<u>86,767</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
\$	\$	\$
		178,121
		<u>7,702</u>
		185,823
472,505	283,067	985,582
		75,464
1,056	1,091	4,257
15		15
		4,829
		<u>1,200</u>
<u>473,576</u>	<u>284,158</u>	<u>1,257,170</u>
18,216	3,734	81,391
1,500	500	4,800
1,067	259	4,627
10,070	1,364	27,671
16,683	4,798	54,342
		2,400
		6,063
		31,352
		57,203
		3,848
		68,920
		22,255
		26,013
		18,606
		16,322
904		935
		8,070
		2,148
		<u>1,825</u>
<u>48,440</u>	<u>10,655</u>	<u>438,791</u>
<u>425,136</u>	<u>273,503</u>	<u>818,379</u>

DOWAGIAC HOUSING COMMISSION
FINANCIAL DATA SCHEDULE (CONTINUED)
 Year Ended September 30, 2005
 =====

FDS Line Item No.		C-3072 Low Rent Program <u>14.850</u>	Capital Fund Program <u>14.872</u>
	Expenses continued:		
	Other expenses:		
972	Casualty losses	(971)	
973	Housing assistance payments		
974	Depreciation expense	<u>155,176</u>	<u>6,309</u>
	Total other expenses	<u>154,205</u>	<u>6,309</u>
900	Total expenses	<u>499,631</u>	<u>40,579</u>
	Excess (deficiency) of operating revenue over(under) expenses before other financing sources (uses)	(121,232)	80,458
	Other Financing Sources(Uses):		
1001	Operating transfers in (out)	<u>11,303</u>	(11,303)
1000	Excess (deficiency) of operating revenue over(under) expenses	(109,929)	69,155
1103	Beginning Net Assets	1,142,579	72,709
1104	Prior period adjustments, equity transfers and correction of errors	<u>68,261</u>	(68,261)
	Ending Net Assets	<u>\$ 1,100,911</u>	<u>\$ 73,603</u>

Housing Choice Vouchers <u>14.871</u>	Section 8 New Construction Program <u>14.182</u>	<u>Totals</u>
		(971)
427,050	270,722	697,772
<u>25</u>	<u>30</u>	<u>161,540</u>
<u>427,075</u>	<u>270,752</u>	<u>858,341</u>
<u>475,515</u>	<u>281,407</u>	<u>1,297,132</u>
(1,939)	2,751	(39,962)
<u> </u>	<u> </u>	<u> </u>
(1,939)	2,751	(39,962)
19,259	38,890	1,273,437
<u>340</u>	<u>1</u>	<u>341</u>
<u>\$ 17,660</u>	<u>\$ 41,642</u>	<u>\$ 1,233,816</u>

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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**Report on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in
Accordance with Government Auditing Standards**

Board of Housing Commissioners
Dowagiac Housing Commission
Dowagiac, Michigan

I have audited the financial statements of the business-type activities of the Dowagiac Housing Commission, Michigan, (Housing Commission) as of and for the year ended September 30, 2005, which collectively comprise the Housing Commission's basic financial statements and have issued my report thereon dated June 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Housing Commission's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses. However, I noted certain matters that I reported to management of the Housing Commission, in a separate letter dated June 20, 2006.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Commission's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which

Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on an
Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*
Dowagiac Housing Commission
Page Two

Compliance and Other Matters (continued)

could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Bam H. Audette, CPA, PC

June 20, 2006

Barry E. Gaudette, CPA, P.C.

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**Report on Compliance with Requirements
Applicable To Each Major Program and
Internal Control over Compliance
in Accordance with OMB Circular A-133**

Board of Housing Commissioners
Dowagiac Housing Commission
Dowagiac, Michigan

Compliance

I have audited the compliance of the Dowagiac Housing Commission, Michigan, (Housing Commission) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2005. The Housing Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Housing Commission's management. My responsibility is to express an opinion on the Housing Commission's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Housing Commission's compliance with those requirements.

As described in items 05-1 thru 05-5, in the accompanying schedule of findings and questioned costs, the Housing Commission, did not comply

Report on Compliance with Requirements
Applicable to Each Major Program and
Internal Control Over Compliance in
Accordance with OMB Circular A-133
Dowagiac Housing Commission
Page Two

Compliance (continued)

with requirements regarding cash management, eligibility, reporting, special tests and provisions, and other requirements regarding a resident council. Compliance with such requirements is necessary, in my opinion, for the Housing Commission, to comply with requirements applicable to the Housing Commission's programs.

In my opinion, except for the noncompliance described in the preceding paragraph, the Housing Commission, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended September 30, 2005.

Internal Control Over Compliance

The management of the Housing Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered the Housing Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine my auditing procedures for the purpose of expressing my opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

My consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over compliance and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, Board of Housing Commissioners, the Michigan Department of Treasury, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Samy E. Tardiff, CPA, PC

June 20, 2006

DOWAGIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
September 30, 2005
=====

A. Summary of Audit Results

1. The auditors' report expresses an unqualified opinion on the financial statements of the Housing Commission.
2. No material weaknesses were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of the Housing Commission were discovered during the audit.
4. Material weaknesses were identified during the audit of the major federal award programs.
5. The auditors' report on compliance for the major federal award programs for the Housing Commission expresses a qualified opinion.
6. Audit findings that are required to be reported in accordance with Section 510(a) or OMB Circular A-133 are reported in this Schedule.
7. Identification of major programs:

<u>CFDA</u> <u>Number</u>	<u>Federal Program</u>	<u>Amount</u> <u>Expended</u>	<u>Major</u> <u>Program</u>	<u>Compliance</u> <u>Requirement</u>	<u>Questioned</u> <u>Costs</u>	<u>Audit</u> <u>Finding</u>
14.850	Low Rent Public Housing	\$ 184,437	Yes	C	N/A	05-1
				C	N/A	05-2
				P	\$1,975	05-4
14.872	Capital Fund Program	121,037	Yes	O	N/A	N/A
14.871	Housing Choice Vouchers	472,505	Yes	C	N/A	05-2
				N	N/A	05-3
				E, L, N, P	N/A	05-5
14.182	New Construction Section 8	<u>283,067</u>	No	C	N/A	05-2
	Total	<u>\$1,061,046</u>				

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. The Housing Commission was not determined to be a low-risk auditee.

DOWAGIAC HOUSING COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
September 30, 2005
=====

B. Financial Statement Findings

Finding 05-1:

Criteria: HUD uses as a guideline \$15 per tenant for accounts receivable as an acceptable amount.

Statement of Condition: The Housing Commission's accounts receivable from tenants was \$6,190 in the Low Rent Program as of September 30, 2006. The receivable is \$72 per tenant.

Questioned Costs: There are no questioned costs.

Perspective Information: The accounts receivable in the prior year was \$4,100 or \$48 per tenant. The trend is in the wrong direction.

Cause and Effect: The Housing Commission's administrative policy regarding collection procedures need to be followed closely.

Recommendation: I recommend that the Housing Commission be diligent in following its policy of collecting delinquent accounts.

C. Federal Award Findings and Questioned Costs

Finding 05-2:

Criteria: HUD has a statutory requirement that Housing Commission's have a depository agreement signed by each institution that it has accounts with.

Statement of Condition: The Housing Commission staff could locate any depository agreements.

Perspective Information: The Housing Commission uses four different institutions for the deposit of cash.

Cause and Effect: The Housing Commission could be at risk that its deposits are not protected by collateral of the institution.

Recommendation: I recommend that the Housing Commission obtain a depository agreement with each institution that it has deposits with. In addition, I recommend that the Housing Commission have the agreement specify an amount that is collateralized.

C. **Federal Award Findings and Questioned Costs (continued)**

Finding 05-3:

Criteria: HUD requires that Housing Commission's maintain an up-to-date utility allowance schedule for the Housing Choice Voucher Program. The Housing Commission must review utility rate data for each utility category each year and must adjust its utility allowance schedule if there has been a rate change of 10 percent or more for a utility category or fuel type since the last time the utility allowance schedule was revised.

Statement of Condition: The Housing Commission has not done a utility allowance study since 2001. Another area Housing Commission's study has been used instead.

Questioned Costs: There are no questioned costs.

Perspective Information: There are 115 vouchers available.

Cause and Effect: The vouchers that have been issued, may have had the utility allowance calculated using incorrect data.

Recommendation: I recommend the Housing Commission contract with a consultant as soon as possible to have a utility allowance study be performed. My understanding is that the Housing Commission had a proposal from a consultant to perform a study, but did not proceed with hiring them.

Finding 05-4:

Criteria: HUD provides \$25 per tenant in the calculation of operating subsidy. A resident council must be established, that has the responsibility to spend the grant money properly on resident participation.

Statement of Condition: The Housing Commission during the fiscal year ending September 30, 2005 obtained \$1,975 for resident participation that was included in the operating subsidy.

Questioned Costs: Since there was not a resident council during the prior fiscal year, \$1,975 spent on tenant services is a questioned cost.

Perspective Information: There are 86 units in the Low Rent Program, but only 79 occupied units.

Cause and Effect: By not having a resident council, the Housing Commission is at risk of losing the \$25 per tenant funding for resident participation.

Recommendation: I recommend the Housing Commission obtain the HUD regulations regarding the procedures required to properly spend the \$25 per tenant for resident participation included in the operating subsidy.

C. **Federal Award Findings and Questioned Costs (continued)**

Housing Choice Voucher Program - CFDA No. 14.871

Finding 05-5

Criteria: There is correspondence from HUD, dated May 5, 2006, regarding the status of findings and concerns reported from a Independent Assessment and Management Review performed by HUD.

Statement of Condition: There eight findings and two concerns still open.

Questioned Costs: There were no questioned costs.

Perspective Information: There were originally 15 findings and three concerns that had to be corrected.

Cause and Effect: The Housing Commission's Housing Choice Program will be considered troubled until these findings and concerns are corrected.

Recommendation: I recommend that the Housing Commission continue to work with HUD to resolve these findings and concerns.

DOWAGIAC HOUSING COMMISSION
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
September 30, 2005

=====

NONE

DOWAGIAC HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005

=====

<u>Electronic</u> <u>Line Number</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no adjusting journal entries.

DOWAGIAC HOUSING COMMISSION

INDEPENDENT AUDITORS' REPORTS
ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE/BOARD OF COMMISSIONERS
AND
MANAGEMENT ADVISORY COMMENTS

SEPTEMBER 30, 2005

DOWAGIAC HOUSING COMMISSION
CONTENTS
SEPTEMBER 30, 2005

	<u>Page</u>
Independent Auditors' Report on Communications With the Audit Committee/Board of Commissioners	1-2
Independent Auditors' Report on Management Advisory Comments	3
Management Advisory Comments	4-5
Adjusting Journal Entries	6

**INDEPENDENT AUDITORS' REPORT ON
COMMUNICATIONS WITH THE AUDIT COMMITTEE/
BOARD OF COMMISSIONERS**

To the Board of Commissioners
Dowagiac Housing Commission

I have audited the financial statements of the Dowagiac Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated June 20, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that I communicate certain matters to your audit committee or its equivalent. These communications are reported in the following paragraphs.

Auditors' Responsibilities Under Auditing Standards Generally Accepted in the United States of America - In planning and performing my audit of the financial statements, I considered your internal control in order to determine my auditing procedures for purposes of expressing my opinion on the financial statements and not to provide assurance on your internal control. Also, an audit conducted under auditing standards generally accepted in the United States of America is designed to obtain a reasonable, rather than absolute, assurance about the financial statements.

Significant Accounting Policies - The significant accounting policies used in the preparation of your financial statements are discussed in Note 1 to the financial statements. There were no audit adjusting journal entries and no controversial accounting issues.

Management Judgments and Accounting Estimates - Significant management judgments and accounting estimates are disclosed in the notes to the financial statements.

Other Information in Documents Containing Audited Financial Statements - All the information included in the financial statements document has been audited and my responsibilities are addressed in the Independent Auditors' Report.

**INDEPENDENT AUDITORS' REPORT ON COMMUNICATIONS WITH THE
AUDIT COMMITTEE - CONTINUED**

Audit Adjustments - For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in my judgment, may not have been detected except through my auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Housing Commission's financial reporting process (that is, cause future financial statements to be materially misstated). The attached audit adjustments, in my judgment, indicate matters that could have a significant effect on the Housing Commission's financial reporting process (see adjusting journal entries on page 6).

Disagreements With Management - For purposes of this letter, professional accounting standards define disagreement with management as a matter concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. I am pleased to report that no such disagreements arose during the audit.

Consultations With Other Accountants - To my knowledge, management has not consulted with other accountants regarding auditing and accounting matters.

Major Issues Discussed With Management Prior to Retention - There was no discussions regarding the application of accounting principles or auditing standards with management prior to my retention as your auditor.

Difficulties Encountered in Performing the Audit - The President of the Board and the Resident Commissioner met with me and wanted me to examine the washer and dryer bank account disbursements and the petty cash transactions for the fiscal year. The staff was very cooperative and helpful. Also, the Executive Director resigned on May 4, 2006, before I had completed my fieldwork. The interim Executive Director was able to assist me during the final portion of the fieldwork.

This report is intended solely for the information and use of the audit committee or its equivalent and management and is not intended to be and should not be used by anyone other than these specified parties.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire more information on the above communications, I would welcome the opportunity to discuss them with you.

Barry E. Tardiff, CPA, PC
June 20, 2006

Barry E. Gaudette, CPA, P.C.

CERTIFIED PUBLIC ACCOUNTANT

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Traverse City, Michigan 49686
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**INDEPENDENT AUDITORS' REPORT ON
MANAGEMENT ADVISORY COMMENTS**

To the Board of Commissioners
Dowagiac Housing Commission

I have audited the financial statements of the Dowagiac Housing Commission ("Housing Commission") as of and for the year ended September 30, 2005, and have issued my report, thereon, dated June 20, 2006. I have also issued compliance reports and reports on the internal control in accordance with *Government Auditing Standards*. These reports disclosed several material instances of noncompliance, weaknesses and reportable conditions.

Other matters involving the Housing Commission's operations and internal control, which came to my attention during the audit, are reported on the following pages as management advisory comments.

I would like to take this opportunity to acknowledge the many courtesies extended to us by the Housing Commission's personnel during the course of my work.

I shall be pleased to discuss any of the matters referred to in this letter. Should you desire assistance in implementing any of the following suggestions, I would welcome the opportunity of assisting you in these matters.

Barry E. Gaudette, CPA, PC

June 20, 2006

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS
September 30, 2005

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Tenant Services Disbursements

During the fiscal year ending September 30, 2005, the amount expended on tenant services was \$8,463 in the Low Rent Program.

I recommend that the Housing Commission keep the disbursements to the \$25 per tenant that is included in the operating subsidy, at least until the cash reserves are increased.

Washer and Dryer Checking Account

During the fiscal year and after September 30, 2005, the checks written in this account amounted to \$16,770.98 and \$7,765.68, respectively. Disbursements were made for 1/2 of the laundry collections, satellite dish loan payments, christmas gifts to tenants, furniture, a luncheon, bingo gifts, cleaning drapes and tableclothes, petty cash reimbursements, VCR, flowers, and other miscellaneous expenditures for tenants.

My recommendation would be to close this account. Disbursements should be made from the regular checking account of the Low Rent Program. Also, a resident council should be established to determine the proper disbursement of tenant service expenditures.

Check Signers

The Housing Commission has been using four commissioners as authorized check signers.

I recommend that the President, Vice-President, and Executive Director be the authorized check signers. I understand that the Housing Commission has recently changed the check signers to three commissioners. The main reason I have recommended the Executive Director to be a check signer, is because most of the Housing Commissions I audit include the Executive Director and a management review done by HUD for one of the housing commissions I audit, recommended the Executive Director be a check signer.

Check Disbursements

During my audit tests on disbursements, there was one payment made from a "statement", rather an invoice.

I recommend that the support for disbursements, include the invoice as supporting documentation.

DOWAGIAC HOUSING COMMISSION
MANAGEMENT ADVISORY COMMENTS

September 30, 2005

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Petty Cash

The Housing Commission has been using petty cash for bingo gifts, mileage reimbursements, picnics or refreshments for meetings, tenant activities, and other sundry items. One payment for \$50 was to a tenant for being able to show that the security system could be breached and was repaid by the Executive Director according to the documentation attached to the check copy.

The petty cash account seems to be used too much. I recommend the Board establish a policy on the limits and types of disbursements that can be made from this account.

DOWAGIAC HOUSING COMMISSION
ADJUSTING JOURNAL ENTRIES
September 30, 2005
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<u>Account #</u>	<u>Account Name</u>	<u>Debit</u>	<u>Credit</u>
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There were no audit adjusting journal entries.